United States Department of Agriculture
Foreign Agricultural Service
Washington, D.C. 20250

MAR 4 1983

TO: Alan T. Tracy
Acting Under Secretary for
International Affairs and Commodity Programs

FROM: Richard A. Smith
Administrator

Dick S

SUBJECT: Background Information Regarding Blended Credit for Cotton to Korea

Attached is the background paper you requested outlining the pros and cons of extending blended credit to the Koreans for purchases of U.S. cotton. We are also attaching a copy of the February 15 memorandum to the Secretary regarding this issue and a copy of the cabinet decision paper which went to the Secretary during your absence last week.

The direct costs to the U.S. Government for the $10 million interest free credit for 30 months would be $1.7-1.9 million but the direct benefits would be $26-29 million in savings under the most likely scenario outlined in the attached paper. Far more important over time would be the positive effect of blended credit and credit guarantees in maintaining our traditional share (90-95 percent) of the Korean cotton market. Without this small investment by the United States, U.S. cotton industry analysts and we are convinced that our share of the Korean market will trend downward over time toward the market shares we had in 1981/82 in Japan (45.0 percent), Taiwan (61.8 percent) and Hong Kong (33.6 percent).

Cotton's share of the additional $1.25 billion blended credit authorization is in line with cotton's share of U.S. agricultural exports (see attached table), and we believe the benefits in terms of increased exports and domestic program savings would be equal to those for other major agricultural exports.

Attachments